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TAGS: [ENRG](#) [EPET](#) [KZ](#) [PGOV](#) [PREL](#)
SUBJECT: KAZAKHSTAN: AES UPDATE ON REGIONAL POWER,
ELECTRICITY EXPORTS TO CHINA

REF: DUSHANBE 978

Classified By: POEC Chief Deborah Mennuti; Reasons 1.5(b) and (d).

¶1. (C) Summary: AES Country Manager Dale Perry updated the Ambassador on the company's participation in regional electricity projects, as well as AES's demand-driven modernization plans, on the margins of the Ambassador's June 6 tour of AES's 4,000MW Ekibastuz GRES I coal-fired power plant. The recently-signed AES/Government of Tajikistan (GOT) MOU (reftel) set the stage for Phase I of AES's Central Asian Integration strategy, which in the immediate future will involve AES in marketing the GOT's summer electricity surplus to AES customers in Southern Kazakhstan. Perry also described ongoing discussions to involve AES in the planned Kazakhstani-Chinese joint venture to build a 7200 MW coal-fired plant in Pavlodar oblast for electricity export to China. With domestic demand and prices on the rise, and three growing export markets (China, Russia, South Asia) in sight, AES is launching a five-year modernization program, which will increase the Ekibastuz GRES I generating capacity by thirty-five percent. Rival coal and electricity producer Access Industries is also seeking to expand its generation capacity and to enter the Chinese export market (septel). End summary.

Central-South Asian Energy Integration

¶2. (SBU) The Ambassador toured AES's Ekibastuz GRES I power plant on June 6, as part of a three-day visit to Pavlodar oblast (trip report septel). During the plant tour, Perry outlined AES's three-phase Central/South Asian strategy. AES's recently-signed MOU with the GOT, he said, had paved the way for Phase I, in which the Tajiks (51% ownership) and AES (49%, but with management control) plan to construct a 90 km, 220 kV line to the Afghan border, which would be used to export existing Tajik summer surpluses (1.5 million MWh/yr) to Afghanistan. Until the transmission line is completed, AES will help the GOT market its summer surpluses to AES's customers in Southern Kazakhstan. (This arrangement will allow the GOT to circumvent two trading companies -- one in Kyrgyzstan and the other in Kazakhstan -- which currently

capture most of the profit in these transactions. The money the GOT earns in these transactions, Perry indicated, would help it pay for its share of the transmission line project.)

13. (SBU) In Phase II, Perry explained, AES will use the second North-South Kazakhstani transmission line (currently under construction), linked to a future 500 MW line running from Kazakhstan to Pakistan, to sell an estimated 300-400 MW from its Ekibastuz GRES I plant (supplemented by Tajik hydro power) to Pakistan. Perry pointed out that, in the medium term, Afghanistan would remain a risky market. AES could mitigate the risk of short-term line outages, however, by channeling Tajik hydro power to Kazakhstan during those periods, reducing the load on its thermal plants. In Phase III, Perry concluded, as regional energy prices normalized and transporting electricity long-distance became uneconomical, Ekibastuz GRES I production would likely be used exclusively to satisfy Kazakhstani and Russian demand. By that time, however, refurbished and new Tajik and Krygyz hydro projects -- some of which AES hoped to invest in -- would provide additional electricity for export to South Asia.

AES Ekibastuz Expansion Plans

14. (C) Perry informed the Ambassador that, with Kazakhstani electricity demand projected to rise at roughly half the rate of GDP growth, power prices expected to grow steadily over the next decade, and three targeted export markets, AES had launched a five-year modernization program of the Ekibastuz GRES I plant, which would raise the available load from the

ALMATY 00002054 002 OF 002

current 2000MW current to 2700MW. (AES will also add environmentally-friendly electrostatic precipitators to its five operational blocks, beginning in 2009.) Perry anticipates a total of \$600 million in available finance to pay for the modernization and export initiatives, with roughly equal quantities coming from ADB and Islamic Development Bank loans, project refinancing, and equity offerings.

15. (C) Commercially, AES is focused on signing long-term contracts with industrial customers. KEGOC's (Kazakhstan Electricity Grid Operating Company) legislated inability to sign long-term contracts with suppliers poses the risk of future shortages in residential electricity supplies, Perry warned, as increasing proportions of potential supply are locked-up in long-term contracts with industrial customers. (As an example of this trend, Perry pointed out that the nearby Aksu power plant was increasingly shifting its generation toward the industrial needs of its owners, the Eurasia Group.)

Negotiating a Role in Chinese Coal-Plant Project

16. (C) Perry briefed the Ambassador on possible AES involvement in a planned Chinese-Kazakhstani joint venture to build a 7200 MW coal-fired plant near Ekibastuz, along with a 4500 km, 1500 kv DC transmission line to export the electricity to China. The Chinese, Perry said, had sought AES involvement in the project early on, likely due to AES's proven record in China and experience in dealing with Kazakhstani authorities. Perry explained that AES and Huaneng, the Chinese company behind the project, were discussing three possible ways to involve AES. First, AES could supply coal to the plant from its Maikuben mine, thus lessening the plant's dependence on its inevitable primary supplier, Bogatyr Access Komir. Second, AES might operate the plant. Third, given that the transmission line could be built far faster than the new power plant, AES might supply 1000 MW of power to the line from Ekibastuz GRES I in the years before the new plant came on line. According to Perry,

under this arrangement the Chinese would pay to completely rehabilitate two of Ekibastuz GRES I's eight generating blocks, installing new Chinese turbines. AES would secure coal for the blocks and operate them, Perry indicated. After a defined period ("7-8 years"), AES would own the turbines. (For Access Industries' ambitions to acquire generating capacity and export to China, see septel.)
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